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Bootstrapping Your Startup

No, you don't need investors to start your dream business. Here's how to make it happen with your own money.

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Some businesses are built by venture capitalists. Dearly departed Pets.com comes to mind. Other businesses are built by entrepreneurs—Dell Computers and Microsoft are a couple of good examples.

Despite the dream of some entrepreneurs to meet a VC with deep pockets, the fact is that 99.9 percent of business owners will struggle alone, pulling themselves up by their bootstraps. And that's not necessarily a bad thing. With a little luck and a lot of pluck, bootstrapping a business can be both financially and emotionally rewarding.

There are no guarantees of success when self-financing a business, of course, but there are some guidelines that will make the game go smoothly.

Entrepreneur Know Thyself

Each business and each entrepreneur is unique. It's important for the business owner to understand the risk that he or she can withstand. A recent college grad may have a high tolerance to risk because she probably doesn't have much to lose. But the equation looks a lot different for a 30-year old single parent. Throw in a couple of obligations for a mortgage and a car, and mom or dad may be reluctant to give up the day job to venture into the unknown.

Shep and Ian Murray knew they had a high tolerance for risk when they decided to launch Vineyard Vines LLC, their Greenwich, Connecticut, necktie company. Shep, 31, and Ian, 27, had barely entered the workforce when the entrepreneurial bug bit them. "We had a vision and we just went for it," says Shep. During the early days, the brothers racked up more than \$40,000 in credit card debt, "but we knew that someday when we were making millions, that would seem like a trivial amount."

Bart Snow, 35, was a little further along the career curve, but still had little to loose when he and his wife started Rainbow Express Inc., a courier service in Columbus, Ohio. "We had a very small house payment and no kids. We knew that if we were going to do it, it had to be now." Still, the couple agreed that Bart should keep his job until the fledgling company could afford to replace at least some of his income.

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Think you're ready to bootstrap your way to success? Here are five tips to help you get started.

Understanding personal economics upfront will make future finance decisions easier. How much capital will each partner be willing to put into a business? How much debt are they willing to assume? Set the ground rules upfront to make the tough financial decisions easier in the long run.

Look Before You Leap

At the concept stage, a business is like an egg that has not yet hatched—and the incubation process can be expensive. Doing research, making phone calls and buying supplies can eat through thousands of dollars before the business is really even born. Many entrepreneurs limit their risk and expense by keeping their day job and letting the idea percolate during evenings and weekends.

The Murray brothers took several months to decide on all the details that shaped their first foray into the world of fashion neckties. "We didn't have a penny to our names, but we had an idea. While we were still working, we used as many [free] resources as we could. We even

took advantage of the studio at the agency where I was working for design resources," says younger brother Ian. Meanwhile, Shep's employer had a fashion division that introduced the brothers to the suppliers they needed. They had lined up both the designs and the production of their first line of neckties before ever quitting their jobs.

Of course, not all employers will so generously support the moonlighting activities of employees. But keeping a steady income during the planning phases of a business is the best start to bootstrapping any new venture.

Wouldn't it be nice to know that your business could be profitable from day one? Many successful companies began with a purchase order. Since having customers is really what business is all about, having at least one customer is a good place to start.

One customer was all it took to get Rainbow Express moving. The nightly courier route that launched the company allowed the founding partners to build even more sales during the day. Bart Snow continued to work the business around his day job, but he adds, "Within a year, the company reached the point that it could replace most of my salary, so I left my job."

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You may be cash-strapped, but you can't afford not to market your business. Try these creative ideas for marketing on a shoestring.

The difference between a business with no customers and a business with one customer is night and day. That first customer serves as far more than a source of income. They are a reference for prospects and a source of insight into the needs of the market. For the very early-stage business, one customer can also provide an important psychological advantage—a paying customer is

strong reassurance that the work has value.

Make a Map

Mapping out a finance strategy is a vital—and often overlooked—part of the business plan. It's easy to project growth in sales and staff, but until those sales are made and paid, where will the cash come from to buy raw materials, pay salaries and provide overhead?

This is an important lesson to learn early on. "Cash flow is always an issue," groans Snow, "unless you've been able to bank a lot of money or you are in a really high-margin business."

Since it often takes weeks or months to collect money from sales, financing a business from only sales revenues is really an exercise in advance planning. The savvy entrepreneur should know not only how to pay for today's expenses, but also how to pay for the next three to six months of overhead.

While Snow believes in the benefits of cash flow planning, he's quick to point out that "cash flow plans don't help if your customers aren't paying you. You have to be really diligent, or people will string you out as long as you let them." Forecasting and collecting accounts receivable are two sides of the same coin.

Don't Spend

Beware of success. "People tend to make a little money and then think they can spend on this and that... but it's a huge trap," warns Snow. "Buy only what you absolutely need." That means no lavish spending on swanky offices, excessive travel and employee perks. There is really no room for excess of any kind in a young business.

Shep and Ian Murray lived with their parents while selling their first batch of neckties out of their car. "We put every penny we had into the highest-quality materials and, later, the best people we could find," explains Shep. There was precious little left for extras—even salaries for the pair were not a given during the first year. But it's this devotion to spending only on the core business that accounts for the success of the company's \$65 ties today.

Likewise, Snow and his wife operated out of the basement of their home until the business could well afford a small office. Using contract labor to match expenses with income was another easy way to grow the business without adding overhead. Regardless of how much money you're spending, the real trick is to conserve cash. Cash really is king, as they say,

because companies have some expenses that simply can't be delayed and can't be put on a credit card. Payroll is the first that comes to mind. Rent and utilities are two other biggies. If there's no cash left to keep the lights on and the employees around, nothing else really matters.

In order to conserve cash, make a concerted effort to use it only when it's absolutely necessary. Barter is an excellent start. (There are several Web sites that help facilitate barter exchanges, and even large vendors are sometimes willing to arrange a swap.)

Snow advises disciplined use of credit cards. He credits plastic with helping to lay the foundation of his company, but also believes that the best use for a credit card is simply to help a company float expenses for awhile. "Floating your cash using an American Express card—where they give you 30 days to pay—is a great tool. It's not really debt because you're paying the full balance, but it helps smooth the cash flow."

Enjoy the Rewards

No matter what your industry, going it alone can be a huge challenge. But when the struggle is over and the business is running smoothly, you'll have the incomparable pleasure of knowing that you did it yourself. Those feelings of control, ownership and accomplishment are often worth more than all the VC dollars in the world.

For More Information

- *Bootstrap: Lessons Learned Building a Successful Company from Scratch* by Kenneth L. Hess details the author's journey through a self-funded business.
- Check out *Financing Your New or Growing Business: How to Find and Raise Capital for Your Venture* by Ralph Alterowitz and Jon Zonderman for the lowdown on start-up financing techniques that really work.
- With information on more than 101 financing sources, *Financing Your Small Business* is a thorough guide to raising money. Inside you'll find the scoop on federal loans, business-friendly banks and more.
- These entrepreneurs bootstrapped their way to success, and you can, too. Click [here](#) to see what they did.

David Worrell has bootstrapped two businesses, and would do it all over again in an instant. You can reach him by phone at (704) 614-2701 or [e-mail](#).

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